



The Municipal Manager
Greater Giyani Municipality
Private Bag X9559
Giyani
0826

Date: 07 December 2018

Reference: 60056REG17-18

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Greater Giyani Municipality for the year ended 30 June 2018.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorized to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.



AUDITOR-GENERAL
SOUTH AFRICA

6. Please notify the undersigned Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

.....
Business Executive: Limpopo business unit

Enquiries: Nthanyiseni Dhumazi
Telephone: (015) 283 9300
Fax: (015) 283 9400

Received by Nqunyile RB P-A to MM.
RB 10/12/2013

Report of the auditor-general to the Limpopo Provincial Legislature and the council of Greater Giyani Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Greater Giyani Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No.3 of 2017) (DoRA).

Basis for qualified opinion

Provision for rehabilitation of dumping site

3. I was unable to obtain sufficient appropriate audit evidence for the current and prior year's provision for the rehabilitation of a dumping site due to non-submission of information in support of the provision. I was unable to confirm the provision by alternative means. Consequently, I was unable to determine whether any adjustment to provision for rehabilitation of dumping site stated at R14 360 144 (2017: R14 360 144) in note 18 to the financial statements was necessary.

Cash flow statement

4. The financial statements were materially misstated due to material uncorrected misstatements in the following items disclosed in the cash flow statement:
 - Receipts from operating activities were overstated by R56 458 081.
 - Payments from operating activities were understated by R47 249 495.

Payables from exchange transactions

5. During 2017, I identified a difference of R7 789 292 between payables from exchange transactions as per note 19 to the financial statements and the underlying accounting records. My opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of

the possible effect of this matter on the comparability of the payables from exchange transactions and the accumulated surplus for the period.

6. During 2017, the municipality did not fully account for payables from exchange transactions, as accruals and general expenditure amounting to R4 898 638 were not recorded. My opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the payables from exchange transactions and the accumulated surplus for the period.

Statement of changes in net assets

7. I was unable to obtain sufficient appropriate audit evidence for some of the transactions included in the statement of changes in net assets, I have identified unreconciled differences of R13 004 118 from the underlying records as well as the correction of errors made. In addition, I have identified a difference of R320 310 282 between the amount disclosed as prior period errors in note 41 and the statement of changes in net assets. Consequently, I was unable to determine whether any further adjustments were necessary to accumulated surplus stated at R878 621 804 (2017: R1 006 358 405).

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
9. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

12. As disclosed in note 30 to the financial statements, an impairment of other financial assets of R159 262 692 was made as a result of investments in VBS Mutual Bank which could possibly result in the capital and interest invested not being recoverable.
13. As disclosed in note 32 to the financial statements, debt of R39 446 358 was impaired as a result of inadequate collecting systems.

Restatement of corresponding figures

14. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Other matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

18. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
19. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

20. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
21. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

22. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
23. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2018:

| Key Performance Area | Pages in the annual performance report |
|--|--|
| KPA3 – Basic service delivery and infrastructure development | x – x |

25. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. I did not raise any material findings on the usefulness and reliability of the reported performance information for the KPA 3- basic service delivery and infrastructure development.

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area 3 - basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

31. The material findings on compliance with specific matters in key legislations are as follows:

Strategic planning and performance management

32. The service delivery and budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Annual financial statements, performance and annual report

33. The financial statements submitted for audit were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

34. Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

35. Bid documentation for procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

36. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulations 8(5).

37. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).

38. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of Supply Chain Management regulation 17(a) and (c). Similar non-compliance was also reported in the previous year.

Asset management

39. Funds were invested/deposited at VBS Mutual Bank and Mopani District Municipality in contravention of municipal investment regulation 6.

Revenue management

40. An effective system of internal control for receivables and revenue was not in place as required by section 64(2)(g) of the MFMA.

Expenditure management

41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R206 452 633 as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the impairment of the VBS Mutual Bank investments.

43. Reasonable steps were not taken to prevent irregular expenditure amounting to R2 929 999 as disclosed in note 46 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by deviations from the procurement processes.

Consequence management

44. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.

46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

48. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

50. The municipality did not create an environment which is conducive for ethical behaviour, which subsequently resulted in some senior officials being suspended and investigated.

51. Adequate oversight, supervision and review over the operations of the municipality was not exercised resulting in over reliance on consultants and municipal officials not taking ownership of overall work performed for compliance, financial and performance reporting.

52. An action plan was developed to address internal control deficiencies, however the plan was not adequately monitored, hence the recurrence of findings identified in the prior year.

53. Although some of the controls and review over daily and monthly recording and reconciliation of transactions and account balances are in place, Management did not monitor controls and review daily and monthly recording and reconciliation of transactions and account balances consistently, resulting in material non-compliance with legislation, submission of financial records and performance information which were not accurate and complete.

54. Infrequent meetings of the risk committee, management not implementing the recommendations of internal audit and late submission of the financial statements and performance information for review to the oversight bodies resulted in the poor quality of financial statements and performance report being submitted for audit.

Other reports

55. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

56. The municipality has initiated an internal investigation relating to alleged financial misconduct against the supply chain manager. The investigation was in progress at the date of this auditor's report.

auditor - general.

Polokwane

7 December 2018



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Greater Giyani Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.